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March 26, 2009

2008-001

2008-002


S. Kimberly Belshé, Secretary
Health and Human Services Agency
1600 Ninth Street, Suite 460
Sacramento, California 95814-6404

Dear Ms. Belshé:

As part of our comprehensive financial and compliance audit of the State of California for the fiscal year ended June 30, 2008, we assessed the internal controls over financial reporting at the Department of Mental Health (department), which is under your jurisdiction. We noted certain deviations from the State's system of internal controls. We also assessed the internal controls and administration of federal programs, which are under your jurisdiction and noted certain deviations from federal laws and regulations.

We are including the department's comments within the issues we are reporting. This format allows the department's perspective to be considered and included in our Internal Control and State and Federal Compliance Audit Report submitted to the Department of Finance. Since the purpose of this letter is to inform you of the issues we have identified at the department and the department's perspective on these issues that were provided to us, it is not necessary for you or the department's director to respond in writing to our letter. However, if you would like to discuss the issues related to financial reporting or the department's response, please contact John Collins, Deputy State Auditor, or John Baier, Audit Principal. If you would like to discuss the issues related to the administration of federal programs or the department's response, please contact Philip J. Jelich, Deputy State Auditor, or Joanne Quarles, Audit Principal, at 445-0255, by April 2, 2009.

Sincerely,



ELAINE M. HOWLE, CPA
State Auditor

Enclosures

✓cc: Dr. Stephen W. Mayberg, Ph.D., Director, Department of Mental Health

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Reference Number: 2008-1-12

Federal Catalog Number: 93.958

Federal Program Title: Block Grants for Community Mental Health Services

Federal Award Numbers and Years: 2B09SM010005-07; 2007
06B1CACMHS-01; 2006
05B1CACMHS-01; 2005

Category of Finding: Activities Allowed/Allowable Costs

State Administering Department: Department of Mental Health (Mental Health)

CRITERIA

TITLE 42 – THE PUBLIC HEALTH AND WELFARE – CHAPTER 6A – PUBLIC HEALTH SERVICE – SUBCHAPTER XVII – BLOCK GRANTS – Part B – Block Grants Regarding Mental Health and Substance Abuse – Subpart i – Block Grants for Community Mental Health Services – Section 300x, Formula Grants to States

(b) Purpose of grants

A funding agreement for a grant under subsection (a) of this section is that, subject to section 300x-5 of this title, the State involved will expend the grant only for the purpose of –

- (1) carrying out the plan submitted under section 300x-1(a) of this title by the State for the fiscal year involved;
- (2) evaluating programs and services carried out under the plan; and
- (3) planning, administration, and educational activities related to providing services under the plan.

TITLE 42 – THE PUBLIC HEALTH AND WELFARE – CHAPTER 6A – PUBLIC HEALTH SERVICE – SUBCHAPTER XVII – BLOCK GRANTS – Part B – Block Grants Regarding Mental Health and Substance Abuse – Subpart i – Block Grants for Community Mental Health Services – Section 300x-5, Restrictions on Use of Payments

(a) In general

A funding agreement for a grant under section 300x of this title is that the State involved will not expend the grant –

- (1) to provide inpatient services;

- (2) to make cash payments to intended recipients of health services;
- (3) to purchase or improve land, purchase, construct, or permanently improve (other than minor remodeling) any building or other facility, or purchase major medical equipment;
- (4) to satisfy any requirement for the expenditure of non-Federal funds as a condition for the receipt of Federal funds; or
- (5) to provide financial assistance to any entity other than a public or nonprofit private entity.

CONDITION

In our prior year audit, we reported that Mental Health did not ensure that subgrantees' expenditures were only for allowable activities and costs. Mental Health relied on the counties' budget and program description components of their applications to determine if funds were used for allowable costs and activities. Specifically, the Substance Abuse and Mental Health Services Administration's Block Grants for Community Mental Health Services (SAMHSA CMHS) grant renewal application instructions directed counties to include in their program narrative a description that specifies what is actually being paid for by the block grant funds. However, our review of program narratives found that counties provided a general outline of program activities and did not explain each budget item. We also found that one program narrative was missing and one program narrative did not clearly specify its target population as children with serious emotional disturbance or adults with serious mental illness. Additionally, Mental Health did not require the counties to submit invoices, receipts or payroll information to verify amounts they reported as expenditures. Finally, Mental Health did not perform regular site visits to the counties to verify the allowability of their programs' costs and activities.

During our follow-up procedures for fiscal year 2007-08, we found that Mental Health did not implement a process to ensure that counties were only expending SAMHSA CMHS funds for allowable activities and costs. Mental Health stated that it will strengthen its current review process and will add clarifying language to the state fiscal year 2009-10 Planning Estimate and Renewal Application to ensure counties are charging allowable costs and activities to the SAMHSA CMHS block grant. Mental Health plans to complete its revised application by March 2009 and send it to the counties by May 2009. According to Mental Health, it will require counties to add greater detail to their program narratives to explain each budget line item. Absent sufficient processes and procedures, Mental Health has no way of knowing whether the counties are charging unallowable costs and activities to the program.

QUESTIONED COSTS

Unknown

RECOMMENDATION

Mental Health should establish a process to ensure that only allowable costs and activities are paid for with CMHS grant funds.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Mental Health stated that it recognizes the importance of monitoring counties for appropriate expenditures of CMHS grant funds and understands the approach identified in this report. Mental Health disagrees with the general statement that, "... Mental Health has no way of knowing whether the counties are charging unallowable costs and activities to the program."

Mental Health stated that it currently has policies and procedures in place which require each participating County Mental Health Department to submit an annual application and expenditure plan for the CMHS grant funds. The application must address all programs funded with the CMHS grant funds, and requires signed federal agreements, certifications, program data sheets, budgets, and narrative (statement of purpose, program description, target population, staffing chart, designated peer review representative, implementation and evaluation plan). Furthermore, the county application and expenditure plan are reviewed and approved by Mental Health's program and fiscal liaisons prior to the county receiving their block grant allocation.

Mental Health stated that, based on the audit finding, it will strengthen its current application review process by requiring counties to add greater detail to their program narratives to explain each budget line item. Mental Health will complete its revised application and send it to the counties by May 2009. Mental Health believes this strategy will ensure expenditures are solely for allowable costs and activities.

AUDITOR'S COMMENTS ON DEPARTMENT'S VIEW

The Bureau of State Audits (bureau) stands by its statement that Mental Health has no way of knowing whether the counties are charging unallowable costs and activities to the program. As indicated in the condition, Mental Health did not implement a process to ensure that counties were only expending SAMHSA CMHS funds for allowable activities and costs to correct the bureau's prior year finding. In its prior year audit, the bureau found that counties provided a general outline of program activities and did not explain each budget item; that Mental Health did not require the counties to submit invoices, receipts or payroll information to verify amounts they reported as expenditures; and that Mental Health did not perform regular site visits to the counties to verify the allowability of their programs' costs and activities. Thus, Mental Health's process and procedures did not ensure that the SAMHSA CMHS funds were only for allowable activities and costs.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Reference Number: 2008-3-13
Federal Catalog Number: 93.958
Federal Program Title: Block Grants for Community Mental Health Services
Federal Award Number and Year: 2B09SM010005-07; 2007
Category of Finding: Cash Management
State Administering Department: Department of Mental Health (Mental Health)

CRITERIA

TITLE 45 – PUBLIC WELFARE AND HUMAN SERVICES, PART 96 – BLOCK GRANTS,
Subpart C – Financial Management – Section 96.30, Fiscal and Administrative
Requirements

- (a) *Fiscal control and accounting procedures.* Except where otherwise required by Federal law or regulation, a State shall obligate and expend block grant funds in accordance with the laws and procedures applicable to the obligation and expenditure of its own funds.

WELFARE AND INSTITUTIONS CODE, Section 5713

Advances for funding mental health services may be made by the Director of Mental Health from funds appropriated to the department for local mental programs and services specified in the annual Budget Act. Any advances made pursuant to this section shall be made in the form and manner the Director of Mental Health shall determine. When certified by the Director of Mental Health, advances shall be presented to the Controller for payment. Each advance shall be payable from the appropriation made for the fiscal year in which the expenses upon which the advance is based are incurred. The advance may be paid monthly in 12 equal increments but the total amount advanced in one fiscal year shall not exceed 95 percent of the county's total allocation for that year.

STATE OF CALIFORNIA 2007-08 FINAL BUDGET SUMMARY, CHAPTER 171/172, PAGE 406, Provision 2

The Department of Mental Health may authorize advance payments of federal grant funds on a monthly basis to the counties for grantees. These advance payments may not exceed one-twelfth of Section 2.00 of the individual grant award for the 2007-08 fiscal year.

CONDITION

In our prior year audit, we reported that Mental Health's procedures for monitoring the Substance Abuse and Mental Health Services Administration's Block Grants for Community Mental Health Services (SAMHSA CMHS) did not adequately ensure that the advances made to counties were appropriate. Specifically, the formula in an Excel spreadsheet that Mental Health used to verify that the counties did not have cash balances that were more than 15 percent of their monthly expenditures was flawed and the 15 percent calculation was based on old information that often did not reflect the counties' current balances. Further, Mental Health did not follow the procedures that stipulate that a county's advance must be adjusted or not made when a county's cash balance exceeds 15 percent of its monthly expenditures. Finally, Mental Health's procedures did not require a supervisory review and approval of monthly advance amounts.

During our follow-up procedures for fiscal year 2007-08, we found that Mental Health did not implement procedures to address this finding. We observed that Mental Health continued to use the same procedures for fiscal year 2007-08 to determine the amount to pay counties, including using the same flawed spreadsheet. According to its program staff, Mental Health has revised the spreadsheet and it will be implemented in fiscal year 2009-10. During our review of payment authorizations for fiscal year 2007-08, we found only one instance where, according to Mental Health's calculations, a county had excessive cash on hand and still received an unadjusted payment. However, we reported last year that this spreadsheet should not be relied upon to make an accurate determination of counties' cash on hand. Finally, Mental Health has yet to require a supervisory review and approval of the monthly advance amounts.

These deficiencies continue to hamper Mental Health's determination of acceptable cash balances for the counties and its ability to make appropriate adjustments to their cash advances if needed. Further, until it addresses these issues, it cannot demonstrate that the amount of federal funds it is requesting represents its actual immediate cash requirement for carrying out the program.

QUESTIONED COSTS

Not applicable.

RECOMMENDATIONS

Mental Health should establish procedures to accurately monitor county CMHS cash balances and to adjust its advances to them in accordance with its procedures. Mental Health should also document any exceptions and require supervisory review of payment authorizations prior to submitting the authorizations to the accounting unit.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Mental Health stated it will establish and implement procedures to accurately monitor county CMHS cash balances. Mental Health also stated that its practice of providing advances to counties has been discontinued. Finally, Mental Health stated it will also document any exceptions and require supervisory review of payment authorizations prior to submitting the authorizations to the accounting unit.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Reference Number: 2008-7-13

Federal Catalog Number: 93.958

Federal Program Title: Block Grants for Community Mental Health Services

Federal Award Numbers and Years: 2B09SM010005-07; 2007
06B1CACMHS-01; 2006
05B1CACMHS-01; 2005

Category of Finding: Earmarking

State Administering Department: Department of Mental Health (Mental Health)

CRITERIA

TITLE 42 – THE PUBLIC HEALTH AND WELFARE, CHAPTER 6A – PUBLIC HEALTH SERVICE, SUBCHAPTER XVII – BLOCK GRANTS, Part B – Block Grants Regarding Mental Health and Substance Abuse, Subpart i – Block Grants for Community Mental Health Services, Section 300X-5, Restrictions on Use of Payments

(b) Limitation on administrative expenses--

A funding agreement for a grant under section 300x of this title is that the State involved will not expend more than 5 percent of the grant for administrative expenses with respect to the grant.

CONDITION

In our prior year audit, we reported that Mental Health did not have an official written policy or procedure in place to ensure that administrative costs were charged appropriately to the Substance Abuse and Mental Health Services Administration's Block Grants for Community Mental Health Services (SAMHSA CMHS). Mental Health charged all or only a portion of salaries for certain key SAMHSA staff to the grant, based on approved timesheets, but other expenditures such as travel were allocated to the SAMHSA CMHS grant by staff's choice.

During our follow-up procedures for fiscal year 2007-08, we found that Mental Health had not developed written policies and procedures to ensure that it consistently and properly applied administrative costs to the SAMHSA CMHSA grant. According to its chief of financial services, Mental Health plans to update its procedures by March 1, 2009. Without an official policy that outlines the allowable costs that may be claimed and procedures such as supervisory reviews, Mental Health cannot reasonably assure that earmarking requirements are met using only allowable costs.

QUESTIONED COSTS

Unknown.

RECOMMENDATION

Mental Health should establish a written policy as well as processes and procedures to ensure that only allowable costs are used to meet the earmarking requirement.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Mental Health stated that it has updated its procedures and they are under review and pending the approval of its management. Mental Health also stated that it plans to conduct a review of the current process and will develop a written policy and processes to ensure that only allowable costs are used to meet the earmarking requirement.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Reference Number: 2008-7-14

Federal Catalog Number: 93.958

Federal Program Title: Block Grants for Community Mental Health Services

Federal Award Numbers and Years: 2B09SM010005-07; 2007
06B1CACMHS-01; 2006
05B1CACMHS-01; 2005

Category of Finding: Level of Effort – Maintenance of Efforts

State Administering Department: Department of Mental Health (Mental Health)

CRITERIA

TITLE 42 – THE PUBLIC HEALTH AND WELFARE – CHAPTER 6A – PUBLIC HEALTH SERVICE – SUBCHAPTER XVII – BLOCK GRANTS – Part B – Block Grants Regarding Mental Health and Substance Abuse – Subpart i – Block Grants for Community Mental Health Services - Section 300x-2, Certain Agreements

(a) Allocation for systems of integrated services for children

(1) In general

With respect to children with a serious emotional disturbance, a funding agreement for a grant under sections 300x of this title is that –

- (A) in the case of a grant for fiscal year 1993, the State involved will expend not less than 10 percent of the grant to increase (relative to fiscal year 1992) funding for the system of integrated services described in section 300x-1(b)(9)(1) of this title;
- (B) in the case of a grant for fiscal year 1994, the State will expend not less than 10 percent of the grant to increase (relative to fiscal year 1993) funding for such a system; and
- (C) in the case of a grant for any subsequent fiscal year, the State will expend for such a system not less than an amount equal to the amount expended by the State for fiscal year 1994.

(2) Waiver

- (A) Upon the request of a State, the Secretary may provide to the State a waiver of all or part of the requirement established in paragraph (1) if the Secretary determines that the State is providing an adequate level of

comprehensive community mental health services for children with a serious emotional disturbance, (2) as indicated by a comparison of the number of such children for which such services are sought with the availability in the State of the services.

(B) The Secretary shall approve or deny a request for a waiver under subparagraph (A) not later than 120 days after the date on which the request is made.

(C) Any waiver provided by the Secretary under subparagraph (A) shall be applicable only to the fiscal year involved.

TITLE 42 – THE PUBLIC HEALTH AND WELFARE – CHAPTER 6A – PUBLIC HEALTH SERVICE – SUBCHAPTER XVII – BLOCK GRANTS – Part B – Block Grants Regarding Mental Health and Substance Abuse – Subpart i – Block Grants for Community Mental Health Services – Section 300x-4 Additional Provisions

(b) Maintenance of Effort regarding State expenditures for Mental Health

(1) In general

A funding agreement for a grant under section 300x of this title is that the State involved will maintain State expenditures for community mental health services at a level that is not less than the average level of such expenditures maintained by the State for the 2-year period preceding the fiscal year for which the State is applying for the grant.

(2) Exclusion of certain funds

The Secretary may exclude from the aggregate State expenditures under subsection (a) of this section, funds appropriated to the principal agency for authorized activities which are of a non-recurring nature and for a specific purpose.

(3) Waiver

The Secretary may, upon the request of a State, waive the requirement established in paragraph (1) if the Secretary determines that extraordinary economic conditions in the State justify the waiver.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

Federal Register Vol. 66, No. 130 (July 6, 2001), contains a notice from the Substance Abuse and Mental Health Service Administration (SAMHSA) executive officer specifying that states are required as a condition of receipt of funds to maintain State expenditures for community based mental health services for adults with serious mental illness (SMI) and children with serious emotional disturbance (SED) at a level that was equal to the average expenditures for such purposes over the previous two years. The federal register also stated that the Secretary, as a matter within his discretion, had the authority to exclude from

the calculation of the maintenance of effort "funds appropriated to the principal agency for authorized activities which are of a non-recurring nature and for a specific purpose."

CONDITION

In our prior year audit, we reported that Mental Health lacked processes and procedures to ensure that it complies with the maintenance of effort (MOE) requirement for this program. Specifically, for the MOE requirement related to the allocation for systems of integrated services for children with SED, we found that two of the seven components that Mental Health included in its MOE calculation—the Early Mental Health Initiative (EMHI) program and the California AIDS mental health project—did not specifically target children with SED. Mental Health also did not provide documentation to support the percentages it applied against the total of managed care and realignment dollars to arrive at the amount it reported as expenditures for children with SED. Finally, Mental Health was unable to provide documentation that showed the components and expenditures that were used to generate the fiscal year 1994-95 threshold of \$160 million. For the MOE requirement related to the State's expenditures for community mental health services, we found that Mental Health did not report all state expenditures for adults with SMI and children with SED. Specifically, it did not include any expenditures made with funds from the Mental Health Services Act (MHSA) and it could not positively state whether other state agencies fund community mental health programs for adults with SMI or children with SED. Finally, one of the six components—the EMHI program—Mental Health included in its calculations of total expenditures for community mental health services did not specifically target adults with SMI or children with SED.

During our follow-up procedures for fiscal year 2007-08, we found that Mental Health had not corrected this finding. Specifically, for its fiscal year 2007-08 calculation of the MOE for integrated services for children with SED, Mental Health continued to include amounts for the EMHI program and the California AIDS mental health project. Additionally, Mental Health had yet to determine how the percentages it applied against the total managed care and realignment dollars used for the calculation of MOE were derived. Finally, Mental Health continued to be unable to provide documentation to show the components and expenditures that it used to calculate the 1994-95 threshold amount. For the calculation of MOE for community mental health services for fiscal year 2007-08, Mental Health continued to include an amount for the EMHI program. Additionally, Mental Health did not report all state expenditures for adults with SMI and children with SED. For example, it did not include any funding from the MHSA in its calculation.

However, we noted for its fiscal year 2008-09 MOE, Mental Health removed the EMHI program and the California AIDS mental health project from its calculation for the integrated services for children with SED and the EMHI program from its calculation for community mental health services. Also, according to staff in its budgets office, Mental Health is examining the possibility of including components of MHSA in its calculation of the MOE for community mental health services. Until Mental Health includes only appropriate expenditures in their calculation of MOE and can adequately support that calculation, Mental Health cannot ensure that they are complying with the MOE requirement for both integrated services for children with SED and for community mental health services.

Finally, Mental Health did not provide us with its plans for providing documentation to support the percentages it applied against the total of managed care and realignment dollars to arrive at the amount it reported as expenditures for children with SED or documentation to support the components and expenditures that were used to generate the fiscal year 1994-95 threshold of \$160 million.

QUESTIONED COSTS

Not applicable.

RECOMMENDATIONS

Mental Health should ensure its calculation of MOE for integrated mental health services for children with SED contains only allowable expenditures. Further, it should reevaluate the percentages used to support the managed care and realignment dollars used in its calculation and retain the supporting documentation. Finally, Mental Health should use the dollar amounts reported in the audited financial statements for the fiscal year 1994-95 threshold.

Mental Health should revise its methodology for calculating the community mental health services MOE requirement to accurately capture and report all State expenditures for adults with SMI and children with SED only.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Mental Health stated it will conduct a reengineering evaluation of the current processes and procedures to ensure that the methodology used to calculate MOE is consistent with federal requirements, and the Center for Mental Health Services' guidelines. In addition, Mental Health stated it will review its methodology for the calculation of the MOE related to services for children with SED (e.g., the set aside) in consultation with the Center for Mental Health Services. Finally, Mental Health stated it will retain supporting documentation in the future.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Reference Number: 2008-8-11

Federal Catalog Number: 93.958

Federal Program Title: Block Grants for Community Mental Health Services

Federal Award Numbers and Years: 2B09SM010005-07; 2007
06B1CACMHS-01; 2006
05B1CACMHS-01; 2005

Category of Finding: Period of Availability

State Administering Department: Department of Mental Health (Mental Health)

CRITERIA

TITLE 42—THE PUBLIC HEALTH AND WELFARE, CHAPTER 6A—PUBLIC HEALTH SERVICE, SUBCHAPTER XVII—BLOCK GRANTS, PART B—Block Grants Regarding Mental Health and Substance Abuse, Subpart iii—General Provisions, Section 300x-62, Availability to States of Grant Payments

Any amounts paid to a State for a fiscal year under Section 300x or 300x-21 of this title shall be available for obligation and expenditure until the end of the fiscal year following the fiscal year for which the amounts were paid.

CONDITION

In our prior year audit, we reported that Mental Health did not have an adequate process to establish obligations of federal awards to counties for a predetermined time period. The total amount Mental Health obligated to counties for fiscal year 2006-07 was unclear and Mental Health did not ensure the federal award was expended within the period of availability. Specifically, Mental Health used \$3.1 million of its \$52.3 million drawdown from the 2006 Block Grants for Community Mental Health Services (CMHS) to pay expenditures from fiscal years other than 2006-07.

During our follow-up work for 2007-08, we found that Mental Health partially corrected this finding. On August 20, 2008, Mental Health issued a letter to notify the counties of the total proposed allocation to them from the 2007 CMHS grant, which agreed with the amount shown on its balance sheet. However, Mental Health did not revise its accounting procedures to instruct staff on how to charge expenditures to each CMHS grant so that it could ensure the two-year period of availability requirement is met. Mental Health instructs its staff to drawdown federal funds for the actual state fiscal year the expenditures are incurred. For example, the 2008 CMHS grant has a two-year period of availability that starts October 1, 2007, and ends September 30, 2009. Mental Health would allocate these

funds for state fiscal year 2008-09, which extends from July 1, 2008, through June 30, 2009.

According to its accounting staff, Mental Health verbally instructed them to follow this procedure in approximately September 2008. However, until Mental Health fully implements its revised accounting procedures for expending federal award funds it cannot ensure that federal funds are expended within the period of availability.

QUESTIONED COSTS

Unknown.

RECOMMENDATION

Mental Health should implement its recently revised accounting procedures to ensure that CMHS grant funds are used within the two-year period of availability.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Mental Health stated that it has implemented its recently revised accounting procedures to ensure that CMHS grant funds are used within the two-year period of availability.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Reference Number: 2008-9-2

Federal Catalog Number: 93.958

Federal Program Title: Block Grants for Community Mental Health Services

Federal Award Number and Year: 2B09SM010005-07; 2007

Category of Finding: Procurement and Suspension and Debarment

State Administering Department: Department of Mental Health (Mental Health)

CRITERIA

TITLE 2—GRANTS AND AGREEMENTS, PART 180 – U.S. OFFICE OF MANAGEMENT AND BUDGET GUIDELINES TO AGENCIES ON GOVERNMENTWIDE DEBARMENT AND SUSPENSION (NONPROCUREMENT), Subpart C – Responsibilities of Participants Regarding Transactions Doing Business With Other Persons, Section 180.330, What Requirements Must I Pass Down to Persons at Lower Tiers With Whom I Intend to Do Business?

Before entering into a covered transaction with a participant at the next lower tier, you must require that participant to –

- (a) Comply with this subpart as a condition of participating in the transaction. You may do so by using any method(s), unless the regulation of the Federal agency responsible for the transaction requires you to use specific methods.
- (b) Pass the requirement to comply with this subpart to each person with whom the participant enters into a covered transaction at the next lower tier.

TITLE 2—GRANTS AND AGREEMENTS, PART 376 – NONPROCUREMENT DEBARMENT AND SUSPENSION, Subpart C – Responsibilities of Participants Regarding Transactions – Section 376.332, What Methods Must I Use to Pass Requirements Down to Participants at Lower Tiers With Whom I Intend to Do Business?

To communicate the requirements to lower-tier participants, you must include a term or condition in the lower-tier transaction requiring the lower-tier participant's compliance with 2 CFR Part 180, as supplemented by this subpart.

CONDITION

In our prior year audit, we reported that Mental Health did not require counties, as part of their suspension and debarment certifications to the State, to ensure that lower-tier

entities with which they entered into covered transactions were not suspended or debarred. Mental Health also did not require counties to pass the requirements down to each person with whom they entered into a covered transaction.

In our follow-up procedures for fiscal year 2007-08, we found that Mental Health had not yet addressed this finding. According to Mental Health staff, a revised suspension and debarment certification relative to county staff and their subcontractors will be included in the fiscal year 2009-10 Planning Estimate and Renewal Application sent to counties in May 2009. Staff also stated Mental Health is working toward developing the revised language and expects to complete it by March 2009. Until it completes these tasks, counties could inadvertently pass federal Block Grants for Community Mental Health Services funds to persons who are excluded from conducting business with the federal government.

QUESTIONED COSTS

Not applicable.

RECOMMENDATION

Mental Health should include the requirements to enforce suspension and debarment regulations with the next lower tier in the instructions to the suspension and debarment certification that it requires counties to submit with their applications.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Mental Health stated it would review its contract terms and conditions, and amend as appropriate.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Reference Number: 2008-12-15

Federal Catalog Number: 93.958

Federal Program Title: Block Grants for Community Mental Health Services

Federal Award Number and Year: 06B1CACMHS-01; 2006

Category of Finding: Reporting

State Administering Department: Department of Mental Health (Mental Health)

CRITERIA

TITLE 45—PUBLIC WELFARE, PART 96—BLOCK GRANTS, Subpart C—Financial Management, Section 96.30, Fiscal and Administrative Requirements

(b) Financial summary of obligation and expenditure of block grant funds—

- (1) Block grants containing time limits on both the obligation and the expenditure of funds. After the close of each statutory period for the obligation of block grant funds and after the close of each statutory period for the expenditure of block grant funds, each grantee shall report to the Department:
 - (i) Total funds obligated and total funds expended by the grantee during the applicable statutory periods; and
 - (ii) The date of the last obligation and the date of the last expenditure.
- (4) Submission of information. Grantees shall submit the information required by paragraph (b)(1), (2), and (3) of this section on OMB Standard Form 269A, Financial Status Report (short form). Grantees are to provide the requested information within 90 days of the close of the applicable statutory grant periods.

CONDITION

In our prior year audit, we reported that Mental Health did not have processes and procedures in place to ensure that the annual Standard Form (SF269A), Financial Status Report, is accurate and submitted on a timely basis. Specifically, we found that the same accounting specialist who prepared the SF269A report for the federal fiscal year 2005 Block Grants for Community Mental Health Services (CMHS) was also responsible for keeping track of when the report was due and completing, signing, and

submitting the report. Further, although the report was due December 29, 2006, Mental Health did not submit it until March 15, 2007.

During our follow-up work for fiscal year 2007-08, we found that Mental Health partially corrected this finding. Specifically, it submitted the SF269A for the federal fiscal year 2006 CMHS grant before the submission deadline and the staff member who approved the report was different than the staff member who prepared the report. We also found that the Mental Health's accounting procedures specified when the SF269A was due and established methods to ensure the report's accuracy. However, Mental Health's accounting procedures did not specifically identify the segregation of duties related to the preparation and approval of the report.

After we brought this to Mental Health's attention, it revised its procedures in February 2009 to require both the preparer and the Accounting Administrator to sign the report.

QUESTIONED COSTS

Not applicable.

RECOMMENDATION

Mental Health should implement its procedures to ensure that the individual who approves the SF269A is not the same individual who prepares it.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Mental Health stated it has implemented procedures to ensure segregation of duties for approval and preparation of the SF269A.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Reference Number: 2008-13-23

Federal Catalog Number: 93.958

Federal Program Title: Block Grants for Community Mental Health Services

Federal Award Numbers and Years: 2B09SM010005-07; 2007
06B1CACMHS-01; 2006
05B1CACMHS-01; 2005

Category of Finding: Subrecipient Monitoring

State Administering Department: Department of Mental Health (Mental Health)

CRITERIA

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133, *AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS* (OMB Circular A-133), Subpart D – Federal Agencies and Pass-Through Entities, Section .400, Responsibilities

- (d) Pass-through entity responsibilities. A pass-through entity shall perform the following for the Federal awards it makes:
- (1) Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.
 - (4) Ensure that subrecipients expending \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year.

OMB CIRCULAR A-133, Subpart B—Audits, Section .225 Sanctions

No audit costs may be charged to Federal awards when audits required by this part have not been made or have been made but not in accordance with this part. In cases of continued inability or unwillingness to have an audit conducted in accordance with this part, Federal agencies and pass-through entities shall take appropriate action using sanctions such as:

- (a) Withholding a percentage of Federal awards until the audit is completed satisfactorily;
- (b) Withholding or disallowing overhead costs;

- (c) Suspending Federal awards until the audit is conducted; or
- (d) Terminating the Federal award.

CONDITION

In our prior year audit, we reported that Mental Health used the incorrect Catalog of Federal Domestic Assistance (CFDA) title in its correspondence to the counties by referring to the grant as "Federal Substance Abuse and Mental Health Services Administration (SAMHSA) Block Grant." We also reported that Mental Health did not have procedures in place to follow up when counties had not submitted their annual OMB Circular A-133 audits to the state.

During our follow-up procedures for fiscal year 2007-08, we found that Mental Health had not addressed this finding. Specifically, it did not use the correct CFDA title in its correspondence to the counties. We also found that Mental Health continued to lack a procedure for following up with counties that have delinquent OMB Circular A-133 audits. According to staff in its Program Compliance Division, Mental Health has developed a procedure to enforce counties' compliance with the audit requirement that includes a template for the letter it will send to the counties when the State Controller's Office (SCO) indicates that it has not received the county's OMB Circular A-133 audit. Mental Health estimates that the template will be finalized approximately March 15, 2009. Mental Health stated that upon approval of the template, it would commence enforcement by communicating with the SCO on any outstanding issues that may require Mental Health's attention. Until Mental Health establishes procedures, it will be unable to identify and take appropriate corrective action against the counties that fail to comply with the OMB Circular A-133 audit requirements.

QUESTIONED COSTS

Not applicable.

RECOMMENDATIONS

Mental Health should institute procedures to ensure that it is using the correct CFDA title on its correspondence to counties.

Mental Health should also implement procedures for following up with counties that have not submitted their OMB Circular A-133 audits and should sanction them as necessary.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Mental Health stated it concurs that the CFDA title "Block Grants for Community Mental Health Services" had not been used in its correspondence with the counties. Mental Health will change all forms sent to the county to the correct title as recommended by the audit finding.

Mental Health also stated that it would implement procedures to follow-up with counties that have not submitted their OMB Circular A-133 audits, and take appropriate actions.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Reference Number: 2008-14-10

Federal Catalog Number: 93.958

Federal Program Title: Block Grants for Community Mental Health Services

Federal Award Number and Year: 2B09SM010005-07; 2007

Category of Finding: Special Tests and Provisions

State Administering Department: Department of Mental Health (Mental Health)

CRITERIA

TITLE 42 – THE PUBLIC HEALTH AND WELFARE, CHAPTER 6A – PUBLIC HEALTH SERVICE, SUBCHAPTER XVII – BLOCK GRANTS, Part B – Block Grants Regarding Mental Health and Substance Abuse, Subpart iii—General Provisions, Section 300x-53, Additional Requirements

(a) In general

A funding agreement for a grant under section 300x or 300x-21 of this title is that the State involved will –

- (1) (A) for the fiscal year for which the grant involved is provided, provide for independent peer review to assess the quality, appropriateness, and efficacy of treatment services provided in the State to individuals under the program involved; and
- (B) ensure that, in the conduct of such peer review, not fewer than 5 percent of the entities providing services in the State under such program are reviewed (which 5 percent is representative of the total population of such entities).

CONDITION

In our prior year audit, we reported that Mental Health did not facilitate peer reviews. Mental Health had facilitated peer reviews in the past in conjunction with its site reviews but phased them out in 2004 after a departmental reorganization.

During our follow-up procedures for fiscal year 2007-08, we found that Mental Health continued to not facilitate peer reviews. According to its program staff, although Mental

Health planned to resume peer reviews, it experienced another departmental reorganization and no further action has been taken. Mental Health has yet to establish a date for resuming peer reviews. The lack of peer reviews further diminishes Mental Health's oversight of the programs offered by counties using the Block Grants for Community Health Services funds.

QUESTIONED COSTS

Not applicable.

RECOMMENDATION

Mental Health should resume independent peer reviews, as required by federal law.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Mental Health stated it would seek guidance from the federal Center for Mental Health Services prior to developing options for meeting all applicable grant requirements.

DEPARTMENT OF MENTAL HEALTH

Reference number 2008-15-3

CONDITION

In preparing its adjustments for fiscal year 2007–08, the Department of Mental Health (Mental Health) overstated its encumbrance reserve amount by \$581 million for the Mental Health Services Fund. On a budgetary/legal basis, local assistance contracts or grants are recorded as encumbrances when the contract or grant is executed. However, in accordance with the Accounting Principles Generally Accepted in the United States of America, these commitments are not reported as encumbrances because the future expenditures related to these commitments are either reimbursed or funded from other sources, or the State will not own the resulting asset. The overstatement error was caused by Mental Health not submitting a generally accepted accounting principles (GAAP) adjustment to reduce the encumbrance reserve and reclassify its local assistance obligation as a commitment.

When departments make errors in their GAAP adjustments, the State Controller's Office (Controller's Office) will not have accurate data when preparing the State's GAAP-based financial statements that it includes in the Comprehensive Annual Financial Report.

CRITERIA

Under Government Code sections 12460 and 12461 the Controller's Office is required to issue a report prepared strictly in accordance with GAAP. To assist it in this responsibility, the Controller's Office annually requests departments to provide adjustments to conform their financial statements to GAAP. Further, the Controller's Office provides instructions to help departments prepare their GAAP adjustments.

RECOMMENDATION

The Mental Health should make improvements to its financial reporting process to ensure that it prepares and submits accurate GAAP adjustments to the Controller's Office. In particular, Mental Health should properly distinguish between commitments and encumbrances in preparing its GAAP adjustments.

DEPARTMENT'S VIEW AND CORRECTIVE ACTION PLAN

Mental Health concurs with our finding and indicates that it will incorporate this GAAP adjustment to reclassify encumbrance balances related to commitments as a part of its annual financial reporting process.